

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF MPOFANA MUNICIPALITY FOR THE YEAR  
ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Mpofana Municipality, which comprise the balance sheet as at 30 June 2009, the income statement and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Basis for qualified opinion**

### **Provisions**

7. I was unable to obtain sufficient appropriate audit evidence through alternative means to satisfy myself as to the completeness and accuracy of the leave provision totalling R547 743 disclosed in note 12 to the financial statements. This was as a result of weak systems of control over reconciliations, monitoring and independent reviews by delegated officials.

### **Qualified opinion**

8. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements of the Mpofana Municipality have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

### **Emphasis of matters**

I draw attention to the following matters on which I do not express a qualified opinion:

### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

### **Restatement of corresponding figures**

10. As disclosed in note xx to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of an error discovered during 30 June 2009 in the financial statements of the Mpofana Municipality at, and for the year ended, 30 June 2008.

### **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### **Unaudited supplementary schedules**

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **Non-compliance with applicable legislation**

#### **Municipal Finance Management Act**

12. An implementation plan, detailing progress towards full compliance with section 122(3) of the MFMA, was not submitted to National Treasury and the provincial treasury before 31 March 2008, as stipulated in *Government Gazette No. 30013 of 29 June 2007*.

### **Governance framework**

13. The governance principles that impact the auditor's opinion on the financial statements relate to the responsibilities and practices of the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

## Internal control deficiencies

14. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. The number listed per component can be followed with the legend below the table. In some instances deficiencies exist in more than one internal control component.

Par. No.	Basis for qualified opinion	CE	RA	CA	IC	M
7	Provisions	2		6		1,3

15. The internal control deficiencies as reflected in the table above are indicative of the fact that delegated officials are not performing assigned tasks. Moreover, monitoring of the human resource processes for leave is very weak.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

## Key governance responsibilities

16. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		<input type="checkbox"/>
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input type="checkbox"/>
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	<input type="checkbox"/>	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		<input type="checkbox"/>
<b>Development of and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	<input type="checkbox"/>	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>		<input type="checkbox"/>
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>		<input type="checkbox"/>
7.	Internal audit		<input type="checkbox"/>
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>		<input type="checkbox"/>
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>		<input type="checkbox"/>
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		<input type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA.		<input type="checkbox"/>
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		<input type="checkbox"/>
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Mpofana Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as	<input type="checkbox"/>	

No.	Matter	Y	N
	set out in section 68 of the MFMA.		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

17. The governance structures within the municipality did not operate effectively during the year. This was evident due to the fact that the financial statements were not of the desired quality. Moreover, the non-availability of key officials and delayed responses are cause for concern.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

18. I have reviewed the performance information as set out on pages xx to xx.

### The accounting officer's responsibility for the performance information

19. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### The Auditor-General's responsibility

20. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

21. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

22. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### Findings on performance information

#### Non-compliance with regulatory requirements

#### Existence and functioning of a performance audit committee

23. The Mpoofana Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

#### Internal auditing of performance measurements

24. The Mpoofana Municipality did not develop and implement systems, mechanisms and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45 of the MSA.

## **APPRECIATION**

25. The assistance rendered by the staff of the Mpofana Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*